Section 3: Chapter 1:

Daily Check List: S&P E-Mini

Just in case you have not got it yet I am going to outline the daily procedures you need to follow before the market opens and after it begins trading.

Each day you are going to have to follow this procedure to give yourself the best opportunity of Trading to WIN.

If you don't then you are lazy and you will never make it as a professional trader. I don't want to tell you anymore why you can be a loser (that would take another book) – I just want to show you how to be a winner.

DAILY TREND APPEARANCE:

1st you must have a clue of the current daily trend and you must know where **the next technical MOB levels are at.**

If you know only this much before the market starts trading you will have an idea of the current market MOOD and where to switch your opinion about the days probable price activity as it unfolds.

NEWS BEFORE THE MARKET OPENS:

Never approach the market for the day without watching Bloomberg for the latest NEWS, as this is paramount to your success as a day trader.

GLOBEX PRE MARKET:

Review the GLOBEX session and see how the overseas markets have been influencing the US price activity.

If you do your analysis each day before the market open you will place yourself in a position of **Trading to WIN.** If you do not then you are going to place yourself in a position of trying to "catch up" all day.

It is important to be prepared before you even consider trading. Markets sometimes move very quickly and if you haven't given any thought to the current technical position before the open you will become a casualty or you will never make the cut.

BE PREPARED or suffer the consequences without any preparation.

ADVICE:

Each day before the market opens you have to get yourself **in the ZONE**. If you don't you will never make it as a trader.

The ZONE to me is where I see the current support or resistance that is likely to halt a current trend or confirm it is still in force.

Once I am in the ZONE I can read the unfolding patterns as they move along.

If I couldn't do that then I would not have a clue what I am doing and I would have to give the game away.

Sometimes I have to sit back and wait for more information once the market begins trading for the day but other times the market just unfolds as I originally expected.

The real issue is that you either have the VIBES and you have COMMITMENT or you have DOUBTS! If you have doubts just sit and watch for a while.

There is no real need to take any trade on any day unless you have the right SIGNS. When the signs are not there just stay patient. Eventually the market will show its hand and then you can jump all over it.

As the market moves along keep your eye on the NEWS as it will give you the MOOD and as the day unfolds you will eventually see the BIAS as you see how the market handles the MOB points you have calculated in advance.

Each step of the trading day you will re-adjust your MOB points and learn more about the strength or weakness on the day. When things appear clear you can hit it. You will be right or wrong very quickly but that is trading.

Read the patterns as the day unfolds and you will always know which side of the market to be on.

There are always 3 or more STAND OUT trading opportunities per day. Learn to recognise them and you must WIN.

Be patient if you make several entries you have to close out and they would have been profitable after the event – just put them down to lost opportunity. I never worry about trades I close out for a small loss that would have been profitable later because I know they could have gone the opposite anyway.

Only worry about the WINNERS when you get them going and don't quit them until the market gives you a reason why.

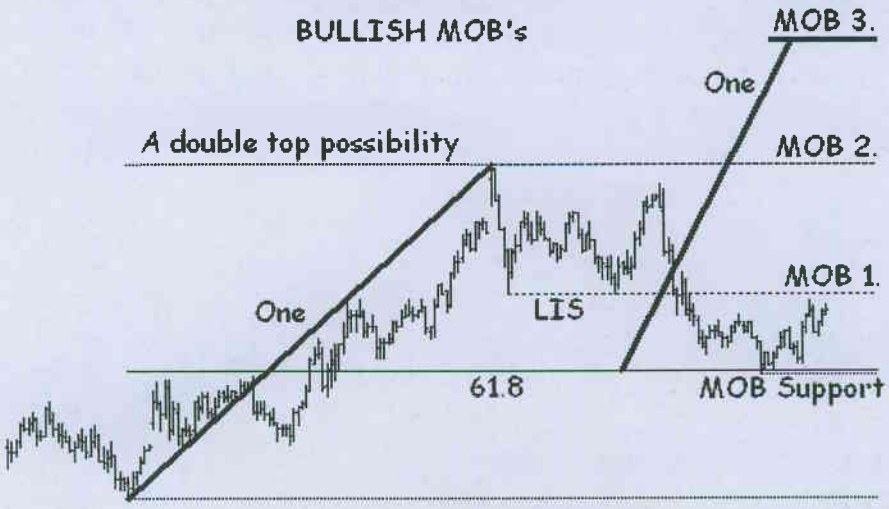
Do these things and it will all turn out the way you want. If you don't then don't blame me because I have no idea of your ability to think and act.

MOB's - MAKE OR BREAK LEVELS:

The traditional MOB's are levels that stand out as prior levels where the market found support or resistance during the past 3 days.

If the market is generally trending up the lower correction levels are going to be MOB's of support. The 1:1 projections of prior advances are going to act as target MOB's if the market moves up into new territory.

A BULL TREND MOB EXAMPLE:



Basis this current pattern example once the market opens it has to do two things to confirm a bullish continuation.

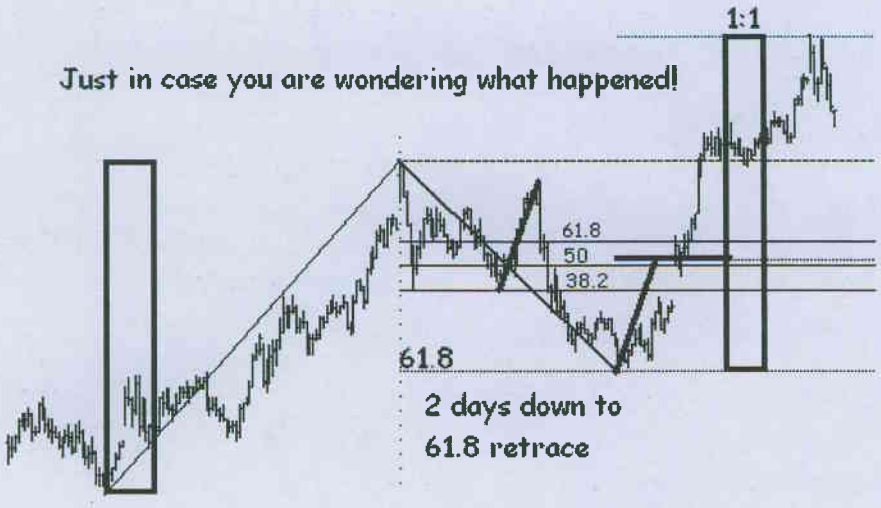
1. Take out the Line in the sand (LIS) which is MOB 1.
2. Break above the 1:1 level of the 1st correction in the move down from the high.

If neither of the above levels are taken out and the chart breaks the recent larger degree 61.8 it becomes a SELL.

READING THE SIGNS -->>>
50
1:1
38.2
A break above the 1:1 would signal a BUY in progress as all the main technical resistance comes out.

If you go through this exercise daily using the current market pattern available to you, on any given day you will see the obvious MOB levels. These levels act as confirmation or non-confirmation of the market direction.

You only buy when the direction is up and you only sell when the direction is down. If you follow these rules you will WIN.



THE TWO-DAY CORRECTION:

Always be aware that a correction of major degree in a volatile market can be expected to expire after 2 trading days or at least by the 3rd day.

If you look for the signs, i.e., watch the tone of the news. Then look for the logical geometric levels that could signal resistance or support you will be prepared to change direction quickly.

It should become obvious to you that the overall trend has not expired by the news and the opinions of the "experts". Sometimes the market will correct whilst it is awaiting some very important economic data to be released. Once the news is released it will be business as usual.

If you follow these guidelines you will be able to place trades with a limited risk and a high probability outcome. If you ignore the signs and trade on opinion you will remain in the 90% bracket of losers.

SOMETHING TO THINK ABOUT:

The first objective for any good trading teacher is to stop the bleeding. If you follow my examples and learn to recognise the opportunities as they present themselves you will stop your account going down. Once you become comfortable with your new situation then you can become more aggressive.

The first requirement of a good trader is to be able to execute without FEAR. You can only do this when you can enter the market as close to the SIGNAL PRICE as possible. If you take the view that when the market does not confirm your choice of trade you better get out – only then can you WIN consistently.

Small losses on bad entries set you free to start again from fresh, this way you do not miss the next opportunity. Losers who hold onto positions hoping they will come good become so confused mentally they are ineffective traders.

Good trading is about playing the "hands" as they are dealt to you.

There is no room for HOPE in the professional traders approach. That is just like trying to draw 1 card to fill an inside straight in Poker.

Now that I have told you all these things you need to be aware of to trade successfully it is up to you to do it – not me. You must throw away all the crutches – brokers and advisory letters – just watch the news and do your own analysis. That is what I call **Trading to WIN**.

Someone asked me recently to explain my attitude to trading and this was my reply:

3 things motivate the market price action!

Traders, Traders and Traders....

Learn to recognise what these guys are doing and you can make money.

You should be able to tell what every trend indicator is doing just by the price activity in the time frame you are watching. But it pays to watch a normal Stochastic for Overbought and Oversold indications.

You should know from the normally accepted resistance and support levels how the market is flowing. Well you should know 70+% of the time when the trend is clear. The flow is either up, down or congested.

When you see a clear-cut trend just trade it and trade it and trade it.

What you don't know is how many orders are standing in your way to cause the reactions, but you can tell when the feathers are plucked and you just have to jump back in after you see them flying.

You need to trade by feel and not by mechanical signals to be a pro.

I change my mind 10 times a day sometimes until I get the feel for what is going on. Once I see the signs falling together I am seldom wrong about what is going to happen next.

Always try and get a clear view of your objective and then you can trade with a free mind.

Just one other thing to remember: Very important.

There is no price to high to buy and there is no price to low to sell.

You must trade what you see and just go with the money flow. Do not refuse to take a trade just because you have an opinion it is overpriced or undervalued. The strangest things happen and you have to be guided by the SIGNS you are witnessing – not your opinion of what should happen!

THE 3 DAY SWING & AVERAGE DAILY RANGE:

Always monitor the 3-day swing chart (and also the 2-day swing) so you know what it will take to make the swing chart change direction.

In 70% of cases when a medium-term trend is in progress it will not reverse until the medium-term trend (say 5 to 10 days at least) is exhausted.

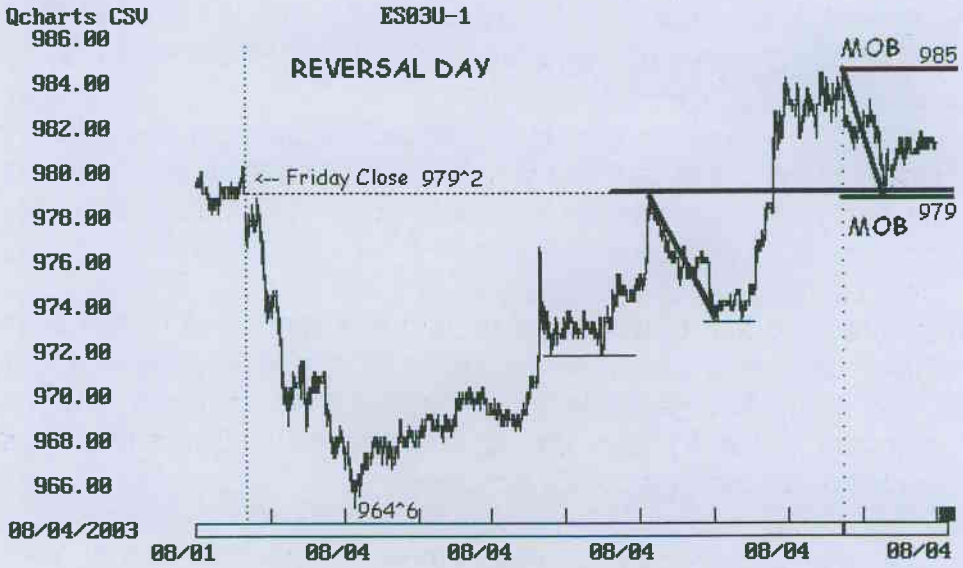
When the current days range falls well below the average daily range the market is stagnating. When the days range exceeds the average daily range by a large margin you should start thinking about a counter trend trade when you can identify an exhaustion point in the pattern as this is where traders will take profits and reverse the intra-day trend, it's only common logic.

I am continuing this chapter with some more day by day analysis examples to illustrate what I am doing to work out where my next trade will come from.

Monday 4th August 2003:

Today was another good example of what I am have been teaching you. Always be alert to the possibilities. The high Thursday was 1004 and today's low was 964.75 a range of 39.25 points DOWN in 2 days and then the reversal rally retraced all the way back to the 50% level in 1 day.

The day looked like this on the 1-minute chart:



Each day you must religiously go through the same procedures so you are fully prepared for the next days trading. This is the only way you will know what is in the minds of the technical traders. The low today came within 4 points of the critical Wave 4 low mentioned in S2:C4:P38.

On any new trading day:

It pays to remember that the technical signals being used by the day traders could relate to only what has happened during the current session or they could be using ranges out for up to 3 or 4 days.

For instance the 50% level of the current day session could seem important to them, gaps on the open may seem to be important on the day and they will try and fill them early in the session.

The opening price is important in respect to the initial positions that traders start the day with. It is a well known fact that the opening price print sets the bench mark most days, historically the opening price range will mark the high or low for the day approximately 50% of the time.

As the day progresses and everyone gets into step with the latest news and the developments coming from the cash market things can become a lot more predictable.

The very active periods are normally the morning and the afternoon sessions with a lull period most days between 12:00-2:00pm ET.

On Monday's traders begin the week with a fresh mind so anything is likely to happen if institutional traders are caught the wrong way around from what has happened the previous week. Tuesday's trade is normally adjusting to the relevant mood of the market and so it goes through to Friday. Friday is an unknown day unless the trend is quite clear as many traders quit early for the weekend. Weather in NEW YORK can be an important issue on Friday's, especially if it is snowing as traders will leave Wall Street early to get home.

Days prior to holidays and days prior to option expiry are battlefields in themselves as buyers and sellers fight it out with their view of the current market position and it depends on who is prepared to hold position over the options close out or holiday period to see who will rule the roost.

Then there are days like today as we go into the open, it is now 9:10am ET and we have had news today of a terrorist bombing in Jakarta Indonesia where a car bomb was exploded outside the Marriott Hotel and caused massive damage, killed 13 and injured 200. Yet with all this the European market has been rallying in the early session.

How the US market will open is yet to be decided, it is being called up marginally but that means very little right now. There is going to be a huge $60 billion bond auction today which is likely to influence proceedings somewhat as traders decide if more money is destined for the stock market or not.

If anything I would be looking for a down movement in the morning session so we will see if I am right or not. But I have my parameters in mind and will work with them so it matters not. 9:25am ET and the Globex S&P futures are trading 979.5 down .5 from yesterday's close.

9:30am ET - The BELL HAS RUNG:

The futures opening range has penetrated the 979 MOB to 978.5 and is sitting on 979, the opening 5 minute range was 979.75-977.5.

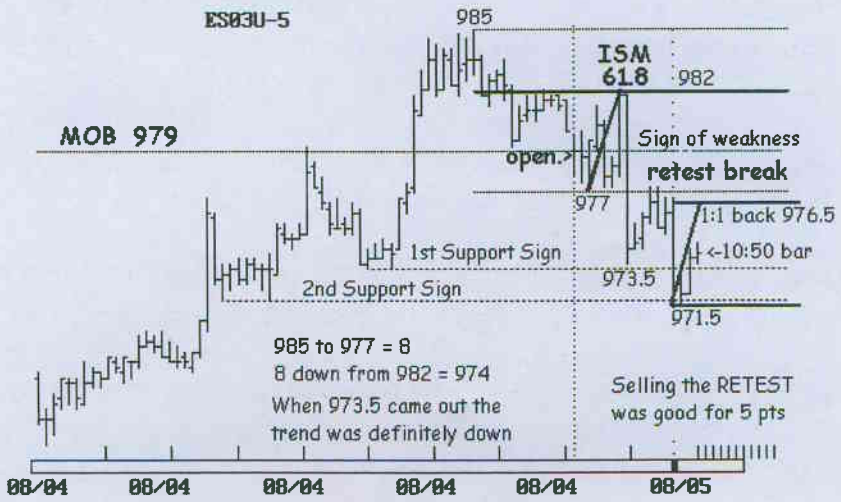
In the first 20 minutes and the market has traded down to 977 and up to 981.25 and is currently at 979.25. 985 to 977 = 8 points.

There is an ISM Services report at 10:00am so I will wait for it before I take a trade. If the 977 level breaks it is the way to go based on my lower MOB at 979.

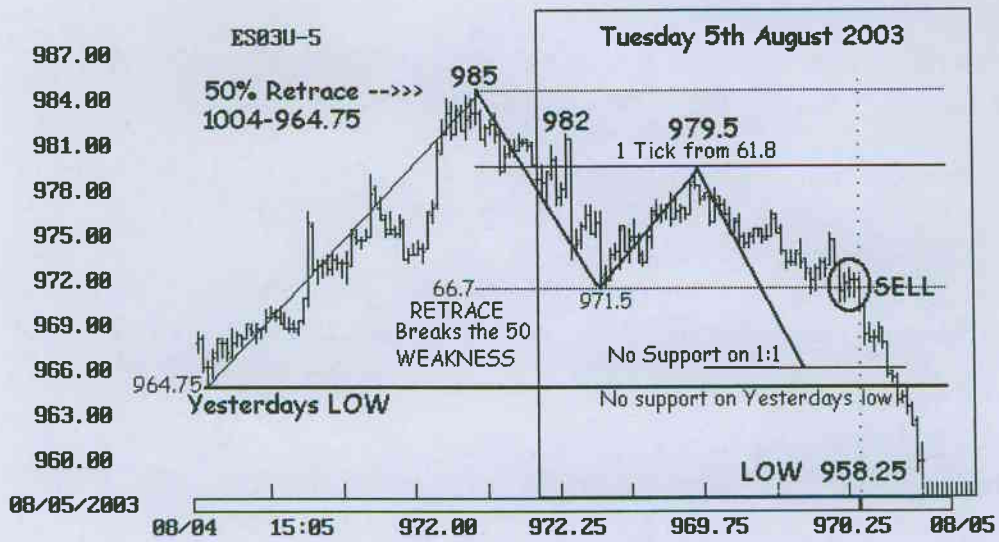
10:00am ISM came in at 65.5 much higher than expected – estimate was 58.5 from a prior 60.6 so that is something new to consider. These were my thoughts as we progressed through the early stages of today.

10:05am the high so far has been 982 and the low 977 we are at the high end right now and really in a no man's land accept for the 61.8 retracement.

10:07am market breaks 977 has only 3 points down to make a 1:1
10:09am low 973.5 a prior swing low from yesterday at this level.
10:23am 977.25 market comes back to test the 977 break out.
10:26am 977.25 – 3 tops here now – retest held downtrend – it's a sell.
10:37am 972 – Now we are through the 973.5 prior low trend is down.
10:39am 971.5 – prior swing low yesterday at this level
10:40am 972.75 – Close the short and resell on a break of 971
10:51am 974 – rallying back now the higher 1:1 is at 976.5 let's see what happens.



When the market rallied back above the 976.5 I did not stay around as I had been working all day and night from 3:00pm ET the day before. But the day progressed and the really good trade of the day did not materialise until after 3:00pm when the late afternoon session broke all the existing support.



Initially what I saw at the 971.5 low was a 66.7 retracement of the rally range of yesterday. The clue for the breakout trade was the fact that the market was sinking after having made a 61.8 retracement. The minimum target would have been a 1:1 with the earlier range of 985-971.5 and this gave a target of 966 and then there was the double bottom with yesterday at 964.75. Now with the market below both of these levels the next logical objective is a 1:1 off 985 measuring the decline from 1004 to 964.75 which is 39.25 down from 985 at 945.75.

Any rally at this stage should not exceed the 8 pointer from 971.5 to 979.5 so we should be prepared for tomorrow now.

Even should the market rally overnight in the Globex session the MOB on the upside is the 964.75 low but we also have to consider that the low today broke the 960.5 low back on July 1st so the market is in a very vulnerable position going into Wednesday. Just the way I like it.

For my bigger picture analysis you can refer to S4:C1:P10 as S4: is where we have been tracking the market action for about 2 weeks now.

You must learn to go through these steps each day even if you don't trade on the day, as it will keep you in tune with the market.

Also listen to the Bloomberg reports and interviews of the trading day as most of them will be rebroadcast over the next 18 hours or so as they try and explain why the market did what it did on the day.

OPEN INTEREST:

Each day just before the market open the Open Interest figures for the day become available.

You should keep a track of these as it can shed some light onto matters at hand.

These were the figures available as trading began on Wednesday morning the 6th August 2003: As supplied to us by our TTW member Carl Phillips.

Contract	30-Jul		31-Jul		1-Aug		4-Aug		5-Aug	
ES	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Sep-03	560671	451192	850836	467253	620181	507798	704289	528912	716130	486890
Dec-03	0	0	658	1686	580	1622	629	1667	342	1744
Total	560671	451192	851494	468939	620761	509420	704918	530579	716472	488634
Delta	-257193	13892	290823	17747	-230733	40481	84157	21159	11554	-41945

Contract	30-Jul		31-Jul		1-Aug		4-Aug		5-Aug	
SP	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Sep-03	41710	606406	79567	571193	60225	571085	57593	569313	57945	556463
Dec-03	0	0	3456	35436	2888	39988	261	40039	4849	42831
Mar-04	0	0	0	1564	40	1533	10	1534	20	1549
Jun-04	0	0	0	261	0	261	2	261	20	281
Sep-04	0	0	0	218	0	218	0	218	0	118
Dec-04	0	0	0	6	0	6	0	6	0	6
Mar-05	0	0	0	6	0	6	0	6	0	6
Jun-05	0	0	0	0	0	0	0	0	0	0
Total	41710	606406	83023	608684	63153	613097	57866	611377	62834	601254
Delta	-21739	1749	41313	2278	-19870	4413	-5287	-1720	4968	-10123

The interesting information here is that the OPEN INTEREST had had a dramatic decline on the day that the market washed out into the 960 low area.

This can only mean one thing: **SHORT COVERING**

As I have explained earlier open interest can only rise as new sellers enter the market.

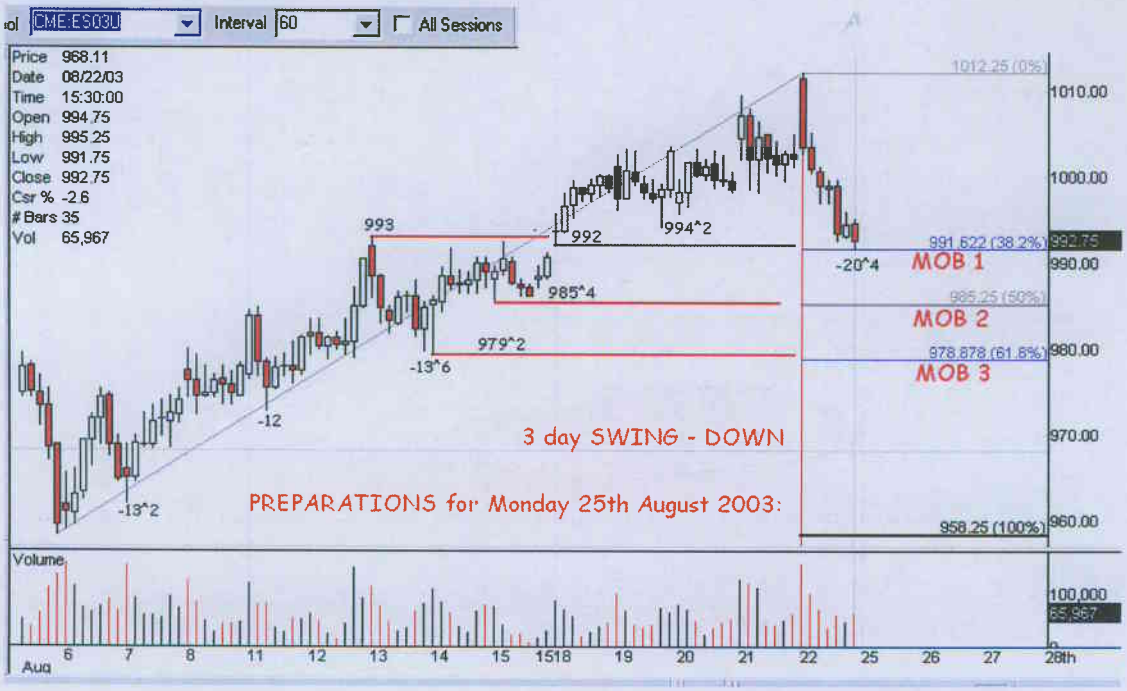
On Tuesday an abundance of existing sellers bought back booking profits on the decline; most importantly new sellers did not replace them. This means the other side of their trades were consumed by existing longs liquidating losing positions.

If you go back a few days you will see that the sell off from the 1004 high attracted a heavy increase in open interest and then on Tuesday they began covering. This may have been part of the reason the market held up today (Wednesday) and didn't fall off the cliff like I thought it might. Every little piece of information is important and we shouldn't forget it.

Continued from: S4:C1:P35:

These are the preparations I am doing for Monday 25th August 2003:

Friday the market made a convincing high and the days range resulted in an OUTSIDE GAP REVERSAL DAY. That is the market opened up above the prior days range and reversed trend and by the end of the day have gone all the way back to Monday's low.



Friday's low tested the 38.2 retracement of the entire move from the August 5th - 958.25 low. Technically you could expect a reaction back up at this level but it occurred right towards the close and had no chance to tell us if there were any buyers there. A break below the 38.2 and the next target is the 50 and if that breaks the 61.8.

Even though the 3-day swing has turned down there is always the chance that this down move could only be a one day correction at this time. Until we have been going down for more than 2 days I will bear this in mind. Once the market begins trading I can see what it is doing as I now have my downside guidelines.

If the market finds support here I have to also determine what will constitute a buy situation for me. In this case it is quite simple because the current range we are working with is only Friday's range.

The largest correction in the move down on Friday was 3.25 points so that is the starting point.

Friday's ES low was 991.75 so a move back above 995 from here constitutes an over balance and we would have to consider a change in relative degree.

My thinking at this point in time is this:

1. The trend is now down and a break of Friday's low constitutes a SELL.
2. A break back through 997 will be the 1st indication we can go higher but I would still SELL a retest of 997 if it comes.
3. A break back through 999.75 would start me thinking that this decline is only a one-day wonder but I would still sell at the 38.2 for a continuation back down.
4. A sell at 997 only requires a ^6 (3/4 point stoploss).
5. A sell at 999.5 only requires a 1 point stop loss and you could reverse long at 1000.5 for a test of the 50 and get your money back.
6. If the 50 (1002) breaks the market is back above the psychological 1000 level convincingly, I would then expect a retest of Friday's high and perhaps the 1014 area, so I would become a buyer.

So you can see that based on my preparation once we begin trading on Monday I have a clear-cut plan of action to follow.

Follow similar steps each day and you will know what is required to be done to make money on an intra-day basis. You will be TRADING to WIN.

As the market moves along I will re-adjust my plan to take into consideration any changes to retracement levels and any 1:1 levels that might come into play.

Section 3: Chapter 2:

Weekly Check List:

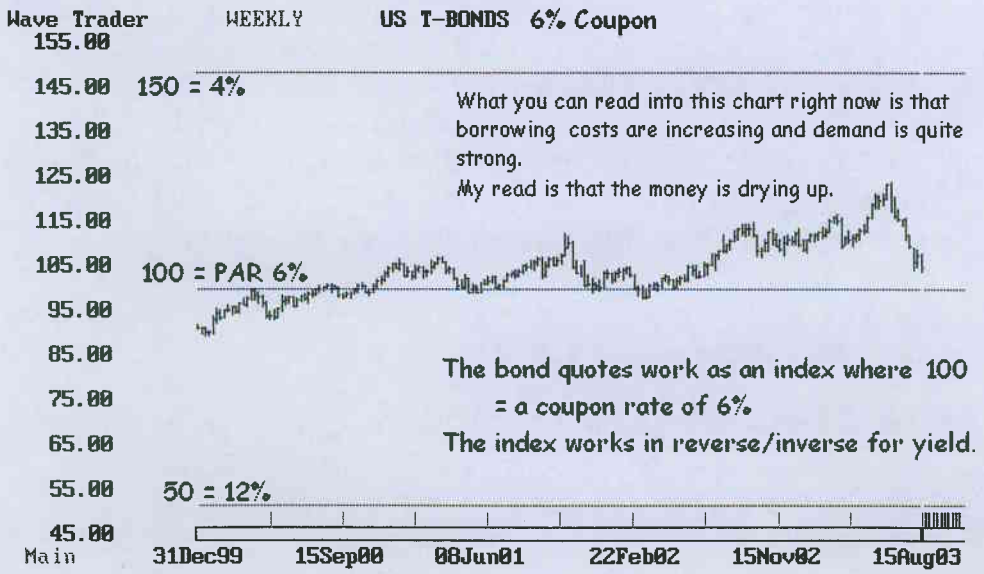
No trading manual would be complete without giving you a run down of all the things you need to remain current with on a week-to-week basis.

Besides the normal things that influence the market on a day-to-day basis the underlying strength of the market will be fairly obvious by the week-to-week activity as we continually move forward.

Some of the longer-term issues that will affect the market strength or weakness are the technical aspects, but underlying these calculations are the political and economic considerations.

It pays to keep an eye on the LONG TERM INTEREST RATES as these cannot be manipulated by the FED – the FED can try and influence the market with its overnight rate manipulations but when it comes to cost of borrowings for government, companies or public housing, the rates are governed by an auction system.

Basically money from the economy will find its way into the various avenues of investment based on rate of returns and the perceived security of such investments. The ability of banks to make new loans is limited to the amount of funds they can attract from investors or pension funds. If long rates rise then the borrower must pay more and the increases are passed on down the line.



A good avenue to monitor is the trend in the 10 year T-Bonds as these will tell you if the cost of money is increasing or decreasing overall.

Let's face it unless the cost of money is moving commensurate with company earnings and GDP changes then the opportunity to fund business expansions is going to be limited. Right now the cost of money is increasing at an unprecedented rate (the index has been heading down = rates rising). You have to ask yourself the question? Are companies in a position to take on more debt for expansion or can they expand by reinvesting their own profits?

Then again investment money could be in short supply and rate increases are an obvious sign of it.

There could be many reasons for this right now as real estate has boomed in recent years as the stock market declined and the FED dropped short-term rates dramatically to encourage growth. The real problem for the FED is that they don't know where cheap money will flow to stimulate growth.

I saw a similar instance of this way back in the early 80's when an economic recession and fall in stock prices resulted in a massive drop in short-term rates and a boom in real estate prices. Real estate continued to boom for some years, up until about 1989 when the rates became so high once again the sides split and cleaned the clocks of those who couldn't hold their positions. The stock market declined for a while until rates came down and then took off in a wild ride through the 90's as tech stocks offered the best gamble of the century.

The point is that when the cost of money goes from cheap to expensive or expensive to cheap relative to the economies ability to repay we can have large swings in stock prices and real estate prices.

Knowing when these influences are possibly going to provide us with trading opportunity is an important exercise we should reflect on once a week.

While I am on this subject it has been an interesting few years watching the stock market fall into disarray and the real estate world go into a boom. I have seen people make fortunes because they positioned themselves at the right time but the old saying keeps ringing in my ears. "It's all over when the fat lady sings"!

When that is I have no idea but based on past experiences it has to be just around the corner once again.

As a trader it will never affect me so I don't care but for those who are hocked up to the eyeballs when the trend in long-term rates has certainly turned the corner I can only expect to see blood in the streets sometime soon in the real estate arena. The point I need to concern myself with though is will it benefit the area I make my money in?

So each week it is a good idea to watch what is going on and evaluate the progress of the markets you follow with the current cost of money available.

Booms of any kind have always had their foundations based in a policy of credit expansion and they always end because the credit expansion cannot keep up the pace.

It is simple economics really.

THE LONG-TERM POSITION OF THE MARKET:

On a week-to-week basis you should review the long-term position of the market.

When you look at the market in this context things don't look that bad visually but the low last year was a drop in value of 50% from the all time high. Which means to recover all the losses it has to go up a 100% in value.

Presently the market appears to be in a recovery mode and at its recent best had gained 32% in value from last years low point.

Economic figures coming through the pipeline would suggest that the US economy is on the mend as companies are returning to profitability. The biggest drawback right now appears to be the unemployment figures. But that is not our major worry as valuations of stocks rely on their underlying asset value and their ability to produce profits and pay dividends.

Historically the establishment looks at PE's (Price to earnings ratios) and a benchmark PE valuation of a solid company is 15 times earnings.

Often the market over values a stock based on the PE if it believes the company will improve its earnings over time. So pure valuations on PE ratios are not an accurate guide – they are only a ballpark figure to go on.
In recent times the overall PE ratio of stocks in the S&P500 has been as high as 25/1, which in my mind is the reason holding the current move upward back.

There doesn't seem to be any other strong reason as there is plenty of investment money sitting on the sidelines by all reports.

The main reason the market fell over in the first place was because of overvaluation, fraudulent accounting practices and a weakening economy. Then to top it all off the USA became a target for terrorism that has virtually brought the airline and travel industry to its knees. Reducing hotel occupancies, retail sales and the ensuing unemployment all added to the drop in consumer confidence, which then found its way into the stock market sentiment. Investors turned to real estate and other things as well known companies dropped in market value by as much as 70%. The major world share markets followed suit reducing the apparent wealth in the world by an enormous percentage. Nevertheless life as we know it has gone on relatively undisturbed and there is no reason to believe that things will change.

The world has been going from one crisis to another for as long as I can remember and the stock market has been going up and down with it at the same time.

My main focus is on the S&P500 - the top 500 US stocks. One has to realise there are thousands of companies in the US and as time goes by and new companies grow they increase in worth and become bigger than existing S&P500 companies. When this happens they are then moved into the index to replace the ones leaving. As a result the S&P500 is hypothetically a growth index. This is where the index funds get their names from as they swap and change their portfolios to reflect the stocks in the index. So you can see why a major bankruptcy like ENRON can affect the index for a while but then when it is replaced by something else the bleeding can stop.

It is my view, if the world does not change much, the S&P500 bear market bottom of 2002 is the lowest we will ever see the S&P500 this century.

So having said that I can move onto what I would be looking at each week to keep confirming my view.

As I have explained in other chapters the market moves along in ups and downs that relate by time ratio. So each week I need to research the existing time cycles so I can see if the existing ones have any relevance to the current market position.

Recently the S&P500 futures market made a double top on the E-Mini at 1014.75 (July 14th day session). This double top coincided with a 1:1 time cycle of major importance so as we are approaching a re-test of this double top it is becoming more and more interesting. Technically I now need to see if this time cycle looks like it has any bearing on the immediate future.

To see the current short-term position of the market you should refer to S4:C1:P21 on.

We are at the crossroads technically because the current rally high is up against a 61.8 retracement.

One thing on my mind this weekend (16th August 2003) is the possible implications of the POWER OUTRAGE on the Eastern Seaboard of the USA this week. There were a lot of disruptions to the transport industry not to mention the losses to the fresh food industry and the retail businesses. Losses would have to be in the 100's of million dollars.

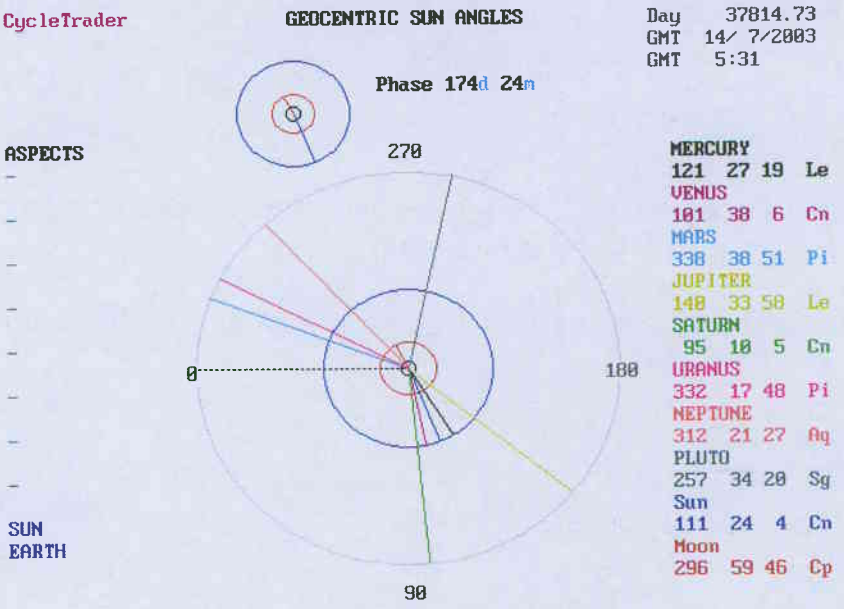
Nevertheless the situation will become clear before long. The purpose of my explanations is to show you the detail I go through to stay in tune with the market action.

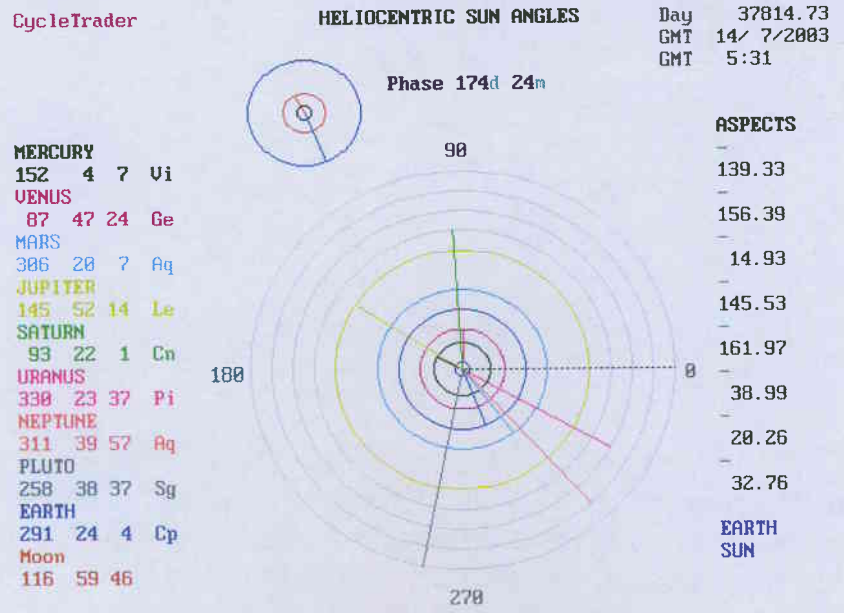
I am a firm believer that you need to understand every little thing that might be in the minds of the traders as it is the traders who take prices from one level to another and not anything else.

You need to understand the technical, the fundamental and the psychological aspects surrounding the traders to be successful today.

There is no point just crunching numbers into some system and hoping it will work because it won't. There is no need either to get involved with any planetary bullshit promoted by some of the so-called "Guru" market forecasters. Stay away from those who promote FINANCIAL ASTROLOGY as a trading tool if you want to make money. Everything they say boils down to absolute bullshit. They live in a world of make believe and to say the least they are delusionary people. I have seen it all over the years and I know now to never even contemplate anything they say as important.

Just to prove my point here are the combined Geocentric and Heliocentric planetary positions for the 14th July 2003 and about the only thing that shows up is a full moon on the evening of the 13th.



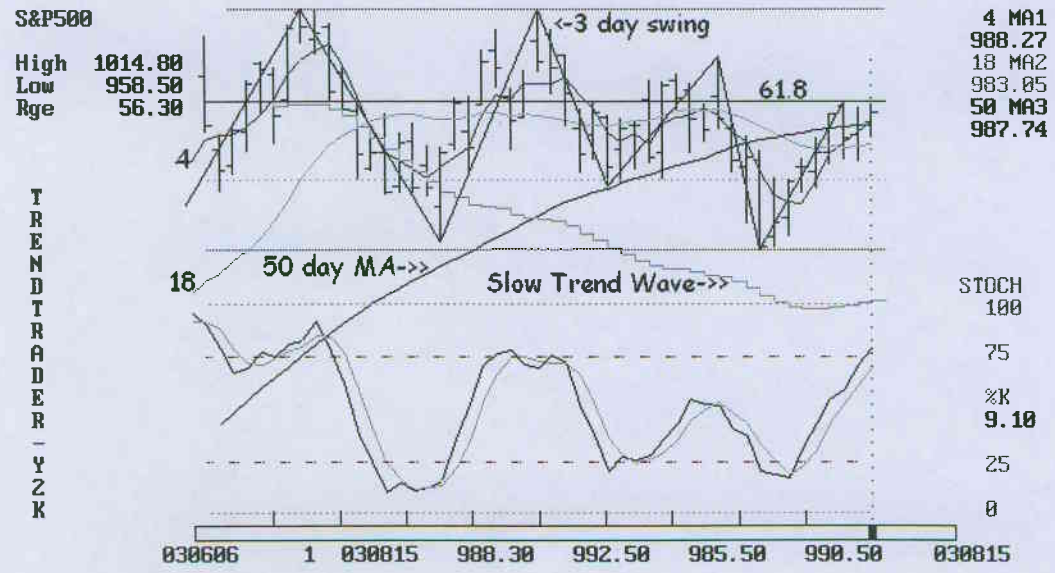


MEDIUM TERM TREND INDICATORS:

TrendTrader	T R E N D A N A L Y S I S			[C] 2001 B.Gilmore
S&P500 60/99	SP5IA			
REPORT DATE	OPEN	HIGH/LOW		CLOSE
	988.30	992.50	Yesterday	987.70
030815		985.50	TODAY	990.50
	Range	7.00	Change	2.80
Trend	SLOW	-59.6	UP	NEXT DAY FORECAST
Wave	MED	-99.9	UP	High 998.60
Indicator	FAST	44.2	UP	Low 987.13
INDICATOR -	MARKET -	STRENGTH -	POSITION	
50 M.A. - RSI	BULL	Bullish	LONG	RSI 56 987.79
4/18 DAY M.A.	BULL	LT Only	LONG	988.27 / 983.05
M.A.C.D	BEAR	LT Only	OUT	
DIRECTIONAL INDEX	WEAK		LONG	DM 14 + 16 - 15
SHORT TERM -	TREND -	STRENGTH -	ACTION	
SLOW STOCHASTIC	UP	OVERBOUGHT	LONG	%K 79 / %D 70
3 DAY RANGE	UP	MP 986.15	LONG	B 992.80 S 979.50

According to this report unless you knew anything about market geometry you would have to say the trend is on the up.

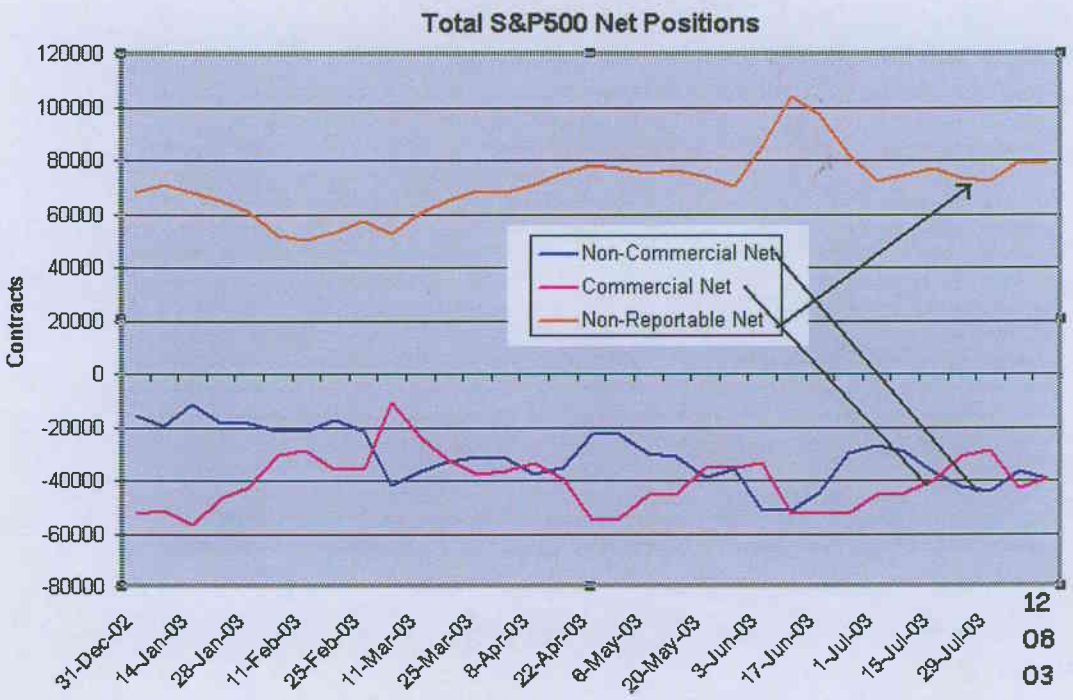
This is effectively what the system traders are seeing so it pays to keep informed.



You should refer to your trend indicators each time you are approaching a strong geometric level in the market. If the trend indicators begin to show signs of overbought or oversold at important levels they become very useful indicators. In this instance if the 61.8 comes out the market will be met with another flood of buying orders. The trend is in the balance right now.

COMMITMENT OF TRADERS REPORT:

Finally the commitment of traders report is essential to your overall view of the market position.



It's a little hard to make a lot of sense out of this other than to say the middle of June period where the market ran down for a while saw the public liquidate longs whilst the commercials bought back a substantial amount of shorts.

The activity since has been relatively flat except for the odd days we witnessed recently.

Nevertheless the unreportable positions have remained quite resolute to the long side with the commercials and non-commercials basically remaining net short without applying any pressure in recent times.

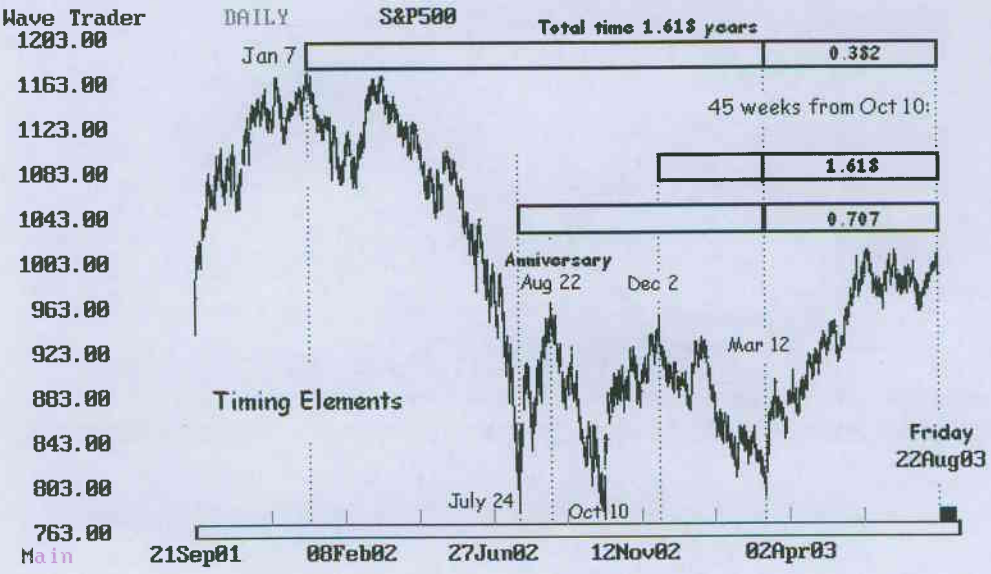
Either another swing up or down in the non-reportable positions would be significant for me on a commitment basis but as we are at a crossroads situation technically right now that is only going to be seen when it happens.

In any case if you follow the analysis procedures I am showing you each week. You will find that everything important will look after itself and you will never be the wrong way around in the market for more than a day at the worst.

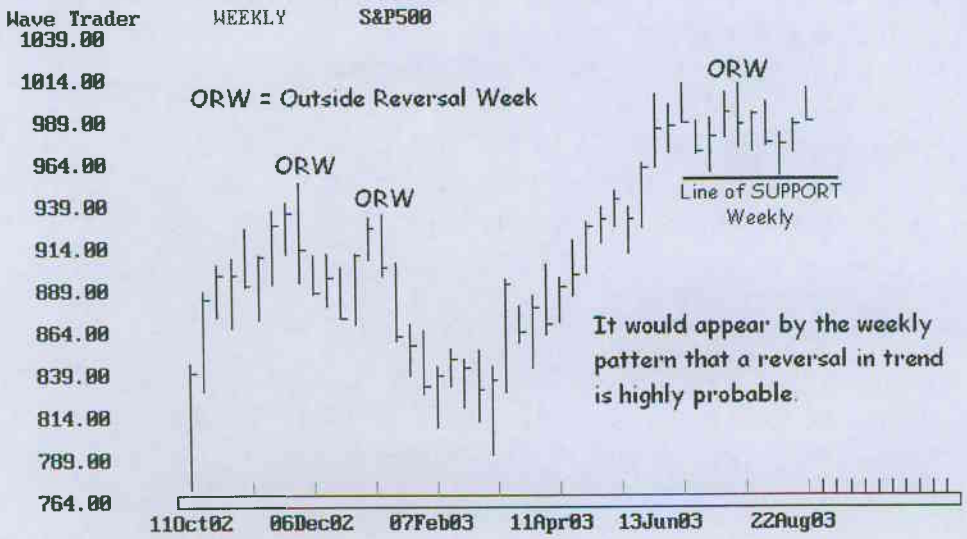
Week ending 22nd August 2003:

Friday the market opened on its high 1012.25 and closed on its low 992 forming a GAP OUTSIDE REVERSAL DAY pattern.

Any significant daily reversal pattern such as this is a real sign for technical analysts and as I have said so many times before it is important to go through all the exercises to see if the TIMING FACTORS have any merit basis the GANN or ELLIOTT methodologies.



The break down on the daily action has been explained in S4:C1:P34 and shows the overbought situation in the daily stochastic. Time is present so everything is in favour of a significant reversal.

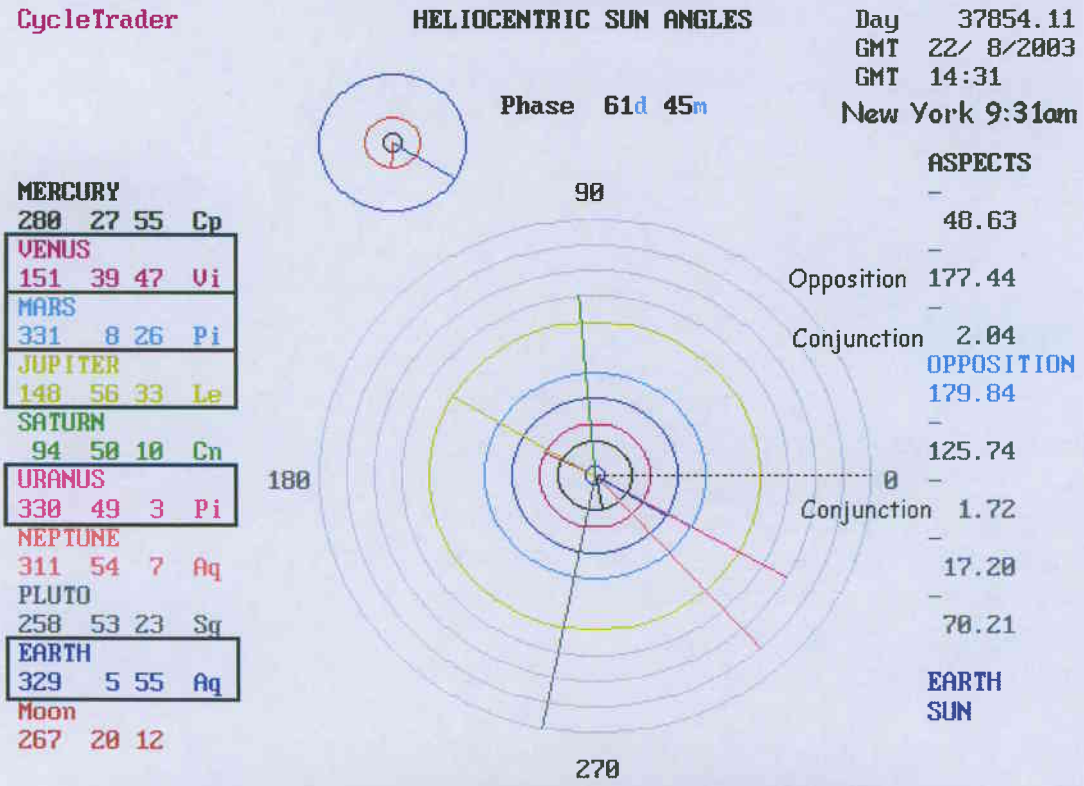


I had to laugh on Friday since I have been discouraging people from taking any notice of planetary positions in this chapter. But I have to admit there was a significant aspect on Friday that would have been psychologically active in the minds of anyone who practices Financial Astrology.

I am sure that if today's high turns out to be anything of major importance I am going to cop some flack in the years ahead as has happened in the past.

Nevertheless I will still stick to my original words in this chapter as even if the planets can be proven to be important I have better ways to time the market and my ways are far more accurate as a trading tool.

These were the aspects for Friday the sky pilots would have been following and I must admit if enough of them dived into the market it would have helped fuel the sell off that occurred on the day.



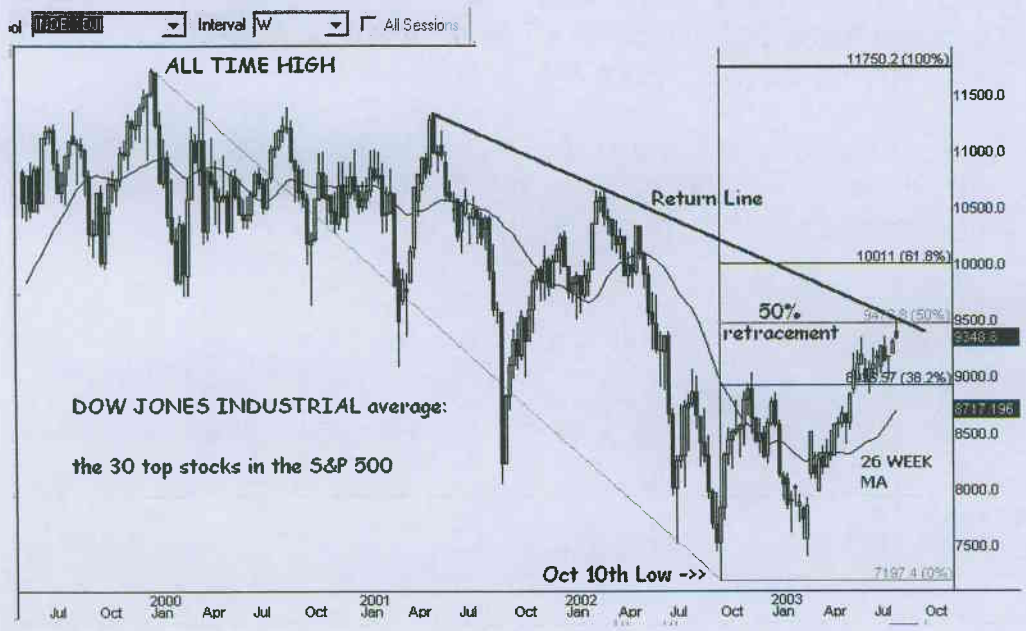
Earth / Sun - Venus, Mars, Jupiter & Uranus are all lined up.

This is something you would not see happen very often and it is hard to imagine what it really means in an economic sense only a psychological sense. But I do remember back in 1987 when the market crashed it did do it during an Earth/Sun/Jupiter Opposition phase.

My main point in showing you this is just to make you aware that it pays to keep an eye on what other traders may be using even if you don't believe in it. I am in the business of playing off the other players nothing more.

ANOTHER COMPONENT OF THE S&P 500 is the DJIA – the top 30 Industrials.

I should have mentioned this earlier but it was not relevant until today. This observation may help you weigh your opinion of the S&P position on a weekly basis. It pays to keep both eyes open if you have two.



The DJIA backed off a 50% retracement level and the word will be out by Monday, believe me.

Whichever way you choose to look at things there will always be some supporting technical evidence for you to fall back on coming from either the DJIA or the major performing stocks in the index.

Certainly looks like "the Fat Lady is about to sing".

Now with all the information we have extracted from the data we have at hand we can go into next week fully prepared.

We don't need anyone else's opinion or newsletters, because we should have done our own work each and every day of our trading career. If you haven't then don't expect to get the results I get.

Preparation and market analysis is the only way you can be successful – I notice time and time again that the invariable losers all think my approach is too much work and as a result they fail. You have a choice! Do the work or fail – there is no other way.

Tuesday 2nd September 2003:

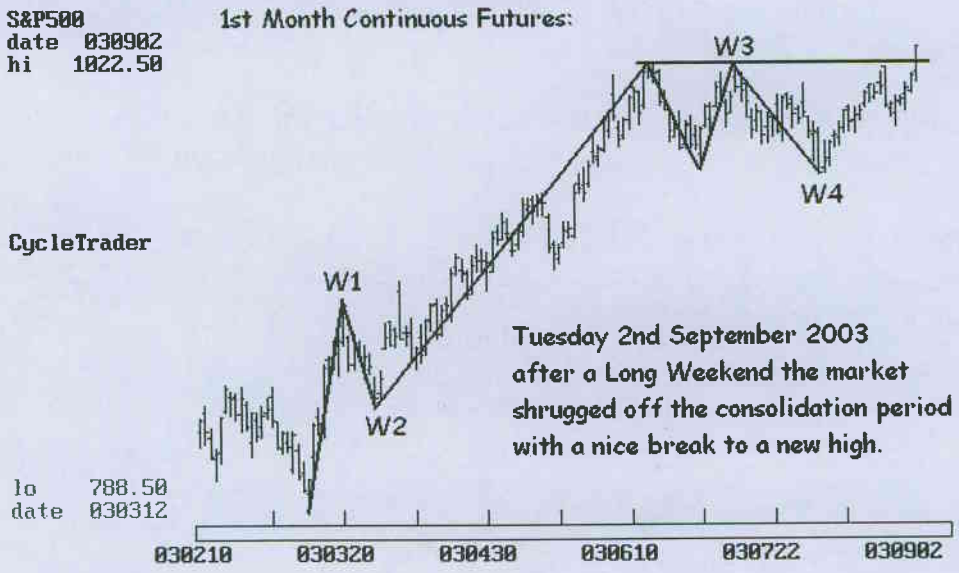
WHAT A DIFFERENCE A WEEK MAKES.

Last week the market declined for two days and then found its feet once again.

The two days down did not violate the uptrend even though the 3-day swing did turn down (see my rules in S1:C8).

Today the S&P broke out into new territory and the DJIA broke above the 50% retacement level shown on the previous page.

This can only leave us with a bullish conclusion of the market right now.



Looking back at the position of the market on the close back at August 22nd and the OUTSIDE REVERSAL DAY you can see why it pays to remain flexible in your opinion and not try and be a forecaster.

Funny thing I had an acquaintance call me early last week and ask me if I had seen the PLANETARY positions on Friday the 22nd. He said he was going to take a long-term short position based on the 50% retracement in the DJIA and planets. I wonder how he is feeling this evening.

It doesn't bother me that the market has made a new high after the signals I was working off a week or so back as I was flexible and reverted to the long side again when we made the OUTSIDE REVERSAL DAY to turn back up on Tuesday August 26th.

Do the work, follow the rules and things will look after themselves. Follow what the market does and don't try and forecast what it will do.

Section 3: Chapter 3:

Contract Rollover:

The E-Mini trades the following delivery months:

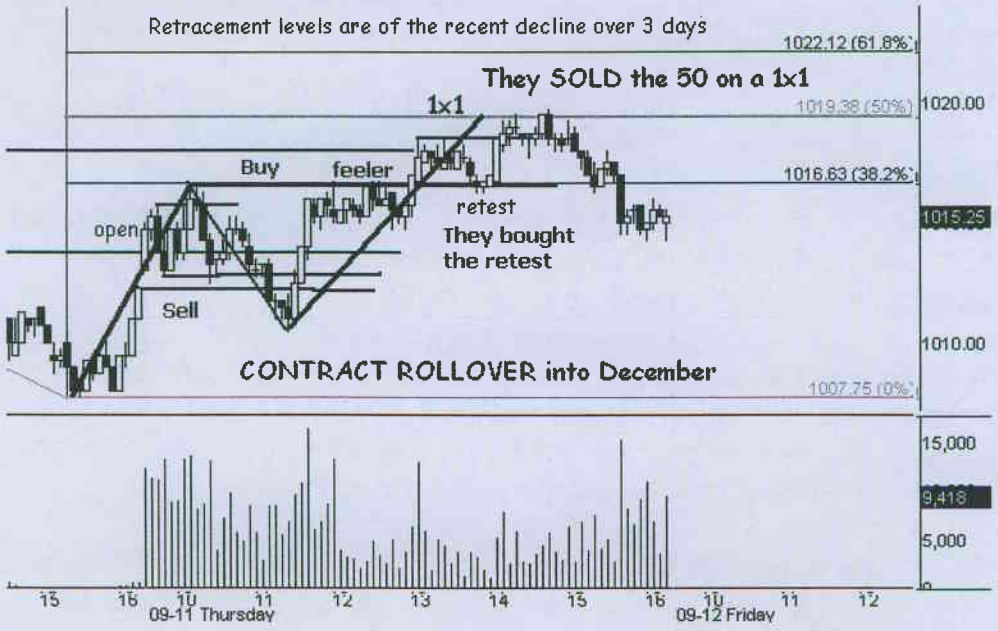
1. March – Code H
2. June – M
3. September - U
4. December – Z

The tickers for the various contact months this year are ES03H, ES03M, ES03U and ES03Z. ES is the symbol, 03 denotes the year and the code denotes the delivery month.

Up until yesterday the current 1st month was September (U) and today the active contract is December (Z).

The exchange rules deem that the active trading volume roll to the forward month 1 week before the delivery date, it usually happens on a Thursday.

The reason for this is to supposedly defuse the volatility on the last trading day when you have a triple witching where options contracts and deliverable futures contracts reach settlement.



This is the December contract ES03Z in 5 minute intervals. You will observe from the chart there is negligible volume in the December contract the day before rollover and then today it lights up.

Just so you can see the difference here is the expiring September contract, the ES03U and it still has 5 trading days until expiry.

These are the total volume and open interest figures for yesterday and the week as we went into the rollover:

Contract	4-Sep		5-Sep		8-Sep		9-Sep		10-Sep	
ES	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Sep-03	577262	511101	661744	515104	671760	523931	621684	515453	773685	523696
Dec-03	2179	9772	2830	11013	10228	16629	20519	29250	33610	51090
Total	579441	520873	664574	526117	681988	540560	642203	544703	807295	574786
Delta	-185838	-6529	85133	5244	17414	14443	-39785	4143	165092	30083

The big contract

Contract	4-Sep		5-Sep		8-Sep		9-Sep		10-Sep	
SP	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Sep-03	64337	479677	88126	459244	71425	438909	112826	386365	104762	343476
Dec-03	17470	145961	39725	174281	27574	196250	73868	252118	61022	298532
Mar-04	828	3256	1020	3692	2382	6002	721	6706	503	7207
Jun-04	1	281	2	279	14	275	0	275	0	275
Sep-04	0	121	7	125	5	128	0	125	0	125
Dec-04	0	6	1	5	4	1	0	1	0	0
Mar-05	4	4	0	4	0	4	0	4	0	4
Jun-05	2	4	0	4	0	4	0	4	0	4
Total	82642	629330	128881	637634	101404	641573	187415	645598	166287	649623
Delta	-37003	-5664	46239	8304	-27477	3939	86011	4025	-21128	4025

There are two things to note in these figures:

1. How the Open Interest in December is building up as we head into the rollover.
2. The volume in December is not all represented in the additional open interest figures.

Let's take the build up in the December open interest first as it is just a simple matter.

These are the positions being taken by either new trader's entering the market that know the rollover is coming or they are traders moving their open positions from September into December.

Even with the rollover approaching there has still been a consistent increase in overall open interest. Now we know that means more new sellers entering the market, and buyers have accommodated them. But up until today the previous two days were down days. (See the chart S4:C1:P39)

You could ask yourself the question, "Why is the volume going into December not fully represented in the Open Interest build up in December".

Well the simple answer is that arbitrage is taking place between the September and December contracts in this time frame.

If you look at the low price yesterday in the September contract it was 1009.25 and in the December contract 1007.75.

Yes, a discount in December of 1.5 points.

Now understand this:

The reason for the discount in a forward month futures contract against the current month is that SELLERS have to OFFER LOWER so they can get buyers to transact business. It reflects the fact that sellers are thinking the market is heading for a downturn and want to make sure they get into position.

Then there are the guys Buying December and Selling September thinking that come the day before September expiry the December contract will fall into line with the September contract and they can pick up the 1.5 points in the spread.

You also have the real heavy players trading off positions in the September contract against options positions at this time.

I said to my student group the other day that I hate this rollover period - the reason is that when we come into the rollover the heavy players come up with all sorts of schemes that they think can make them money.

The problem is, you never know when they will strike and send the market up or down several points unless you have eyes in the back of your head.

I will be much happier trading when the September contract goes off the board and I know these guys are out of the way.

Here's the problem I have during rollover week.

The current rally has overbalanced both 1x1's but it is wedged on the 50% retracement? The overbalance of the 1x1's would indicate strength yet the 50 retracement indicates possible resistance.

The September contract is rallying from a 50% retracement (well it broke it by 2 ticks).

I know in my mind that the 982^4 low and the 1032^6 high were made on high volume trading and were legitimate geometric points of force.

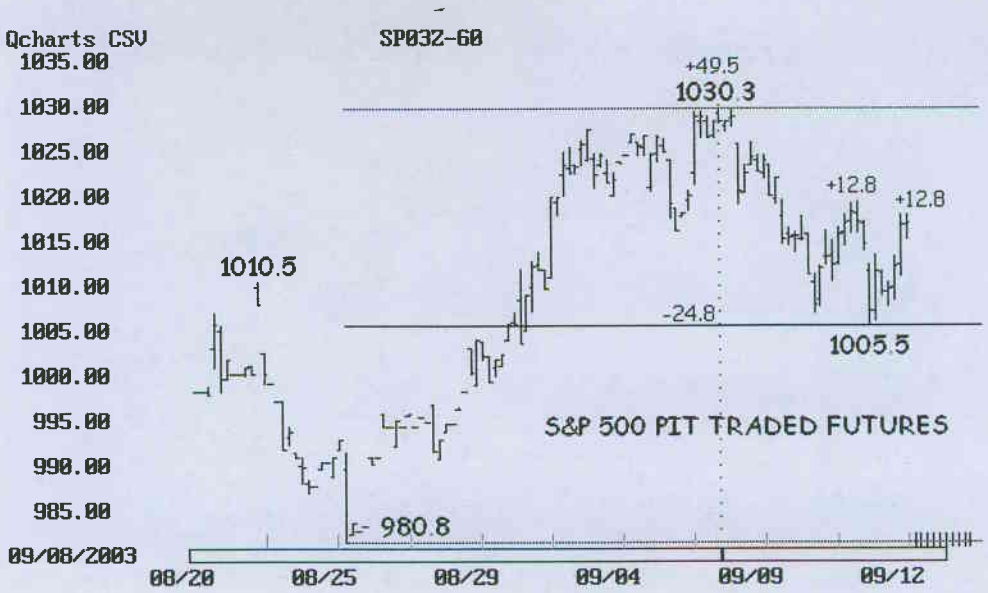
It's the December levels when you go back this far that become a mental problem for me as they were not made on high volume.

All the ranges are identical over the past couple of days. It is when you go back a bit they vary slightly and I am continually wondering which contract is leading the other during the rollover week.

It may be nothing to worry about but the reason I worry about it is because in my book any break of a strong geometric point by over 2 ticks is cause for concern.

At the low today the December E-Mini contract broke it's 50% retracement by over 1 full point. Now when it happened it looked to me like it could keep going lower, but when it broke back above the low of yesterday I called it a buy. The problem for me at the time was that I could not buy the 50% level with any confidence due to the "lost motion" in the geometry.

When something like this happens you really need to refer to the pit contract and see what it did.

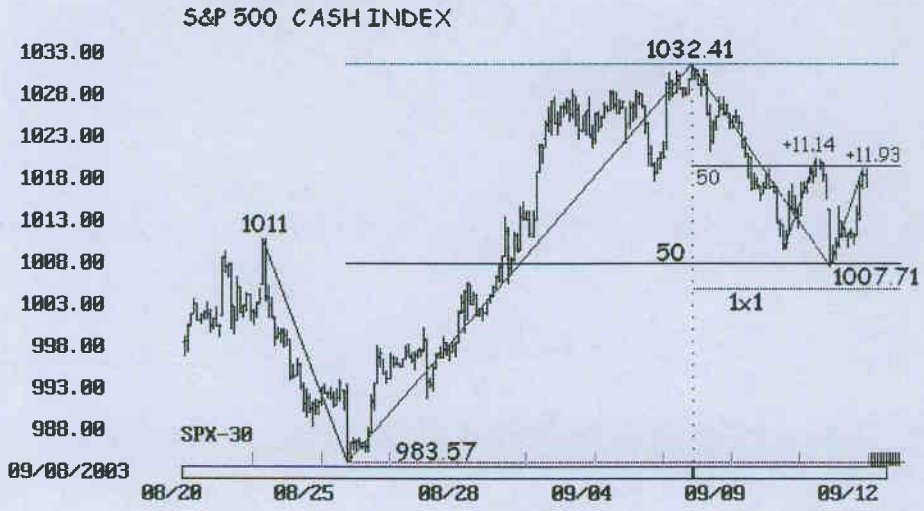


You have to ask yourself why the Pit can trade to a perfect 50% retracement and the Electronic ES overruns sometimes.

Now if you were using my accuracy parameters of 2 ticks maximum deviation from perfect geometry you can have complete faith that we had made a 50% retracement and act on it.

I have seen repeated instances of deviations in the Electronic ES to the PIT traded price at 50% retracements in the past. The last time it happened in a big way was back at the March 31st 2003 low when the ES traded at 840 and the SP traded only 841.5 and the 50% retracement had calculated to 841.5 – Scott Many alerted me to it on the day and I immediately bought it when just a minute or so before I thought the 50 had come out.

Another way to possibly resolve any dilemma is to inspect the CASH CHART:



Now I have looked at it under the microscope I can confidently say that we have made a 50% retracement at the low today.

The next issue becomes the 1x1 corrections upwards. The ES has overbalanced but the SP hasn't. The SP has just broken the 50 back up yet the CASH and the ES have not. Point is we are right on a critical MOB at the end of the day.

Another issue is the discount in the December contract. The CASH low today was 1007.71 so the discount was 2 full points in the futures. This is a bearish sign not a bullish sign.

In any case the only conclusion I can arrive at is if it breaks upwards I should be a buyer and if it stays below the balance point I should be a seller.

The bigger picture is interesting when you stand back and take a good look at what has happened in the past 8 trading days. The market has gone sideways to down with a strong finish on Friday afternoon.

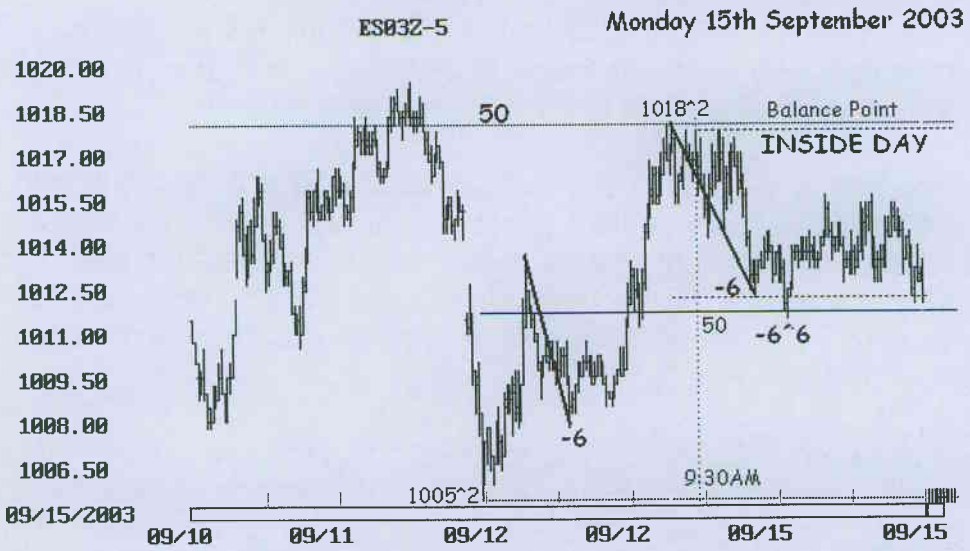
The Bloomberg interviews are all decidedly bullish, the main comments coming through are blaming the current sluggishness on a market that has gone to far to fast. The majority think that as soon as the current setback resolves itself the buyers will return.

I'm not entirely in agreement with their views but I don't have to worry what the market does in the long term I am only a day trader.
The market can go and do anything it likes for all I care. I will know how to handle it.

If the market comes back down and breaks the larger degree 50 I should expect support at the major 1x1 level. If the 1x1 fails then I can be a happy bear and sell like crazy, although the chances that will happen are remote in my eyes at the moment.

Like always I have to wait until the market tells me what to do. I keep saying that this business has to be handled on a one day at a time basis.

Monday 15th September 2003: INSIDE DAY



Contract	8-Sep		9-Sep		10-Sep		11-Sep		12-Sep	
ES	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Sep-03	671760	523931	621684	515453	773685	523696	162052	507982	86942	469596
Dec-03	10228	16629	20519	29250	33610	51090	611338	132846	654027	203844
Total	681988	540560	642203	544703	807295	574786	773390	640828	740969	673440
Delta	17414	14443	-39785	4143	165092	30083	-33905	66042	-32421	32612

ES OI increased 100k

SP OI increased 29k

Contract	8-Sep		9-Sep		10-Sep		11-Sep		12-Sep	
SP	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Sep-03	71425	438909	112826	386365	104762	343476	101564	304902	87177	246217
Dec-03	27574	196250	73868	252118	61022	298532	114209	358715	125278	423201
Mar-04	2382	6002	721	6706	503	7207	1	7208	2272	8587
Jun-04	14	275	0	275	0	275	0	275	0	275
Sep-04	5	128	0	125	0	125	0	125	5	127
Dec-04	4	1	0	1	0	0	0	0	0	0
Mar-05	0	4	0	4	0	4	0	4	0	4
Jun-05	0	4	0	4	0	4	0	4	0	4
Total	101404	641573	187415	645598	166287	649623	215774	671233	214732	678415
Delta	-21477	3939	86011	4025	-21128	4025	49487	21610	-1042	7182

Today turned into a lacklustre affair with a downward bias. The market opened below the balance point on our chart and began to retreat. Over the previous two trading days there has been a substantial build up in Open Interest and without any encouraging news the market just ground out the day. The main news still around the market is the $140 million pay package awarded to the CEO of the NEW YORK STOCK EXCHANGE.

NOW WHAT HAVE I NOTICED OVER THE PAST FEW DAYS?

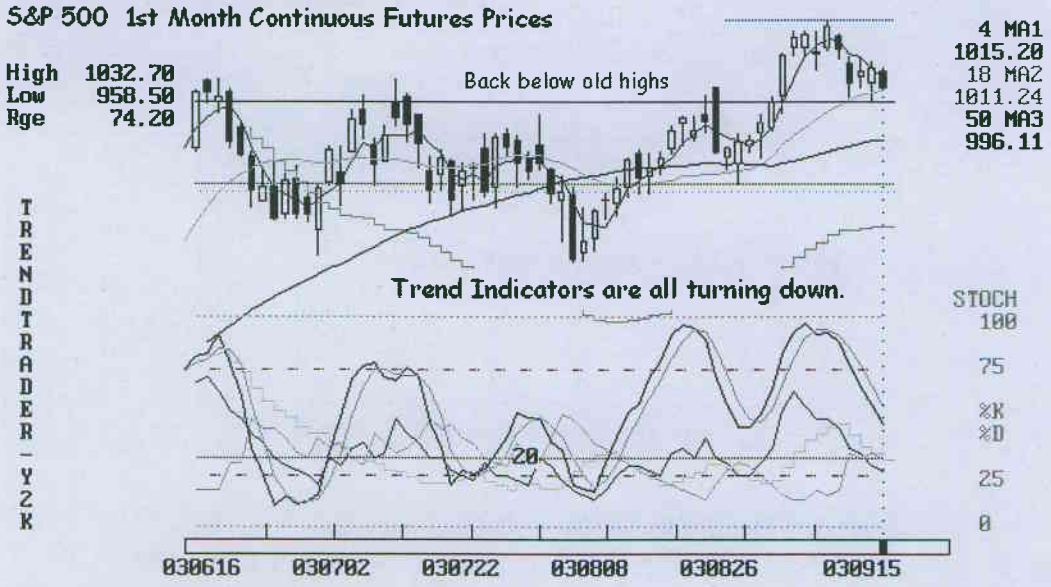
Outside of the buying Friday at the 50 level of larger degree the players are selling into any 50% retracements. They did it on Thursday and again today.

The S&P rally from Friday could not sustain itself today and the big 6 point correction was overbalanced slightly with the market finishing the day nearly on its low. I mentioned the significance of the 6 point correction in a review of Friday's daily range in S1:C18:P112.

The continuing build up in the Open Interest is coming from the Funds and the Commercials selling into the Non Reportable side of the market. If this trend continues something has to give one-way or the other.

There is ongoing trouble with the occupation of Iraq and this combined with the Israel and Palestinian conflict is not adding any confidence to the stock market situation. President Bush's public opinion popularity has dropped significantly as the cost of the Iraq invasion continues to grow and increase budget deficits. Continued talk of more terrorist activity continues to deter people from flying.

Although the economic figures released over the past few months indicate a recovery of some description the employment figures show little to no improvement. The progress of the recovery depends on consumer spending which has been very good in recent months, now if it stalls or consumer confidence falls the market will be susceptible to sharp set backs.



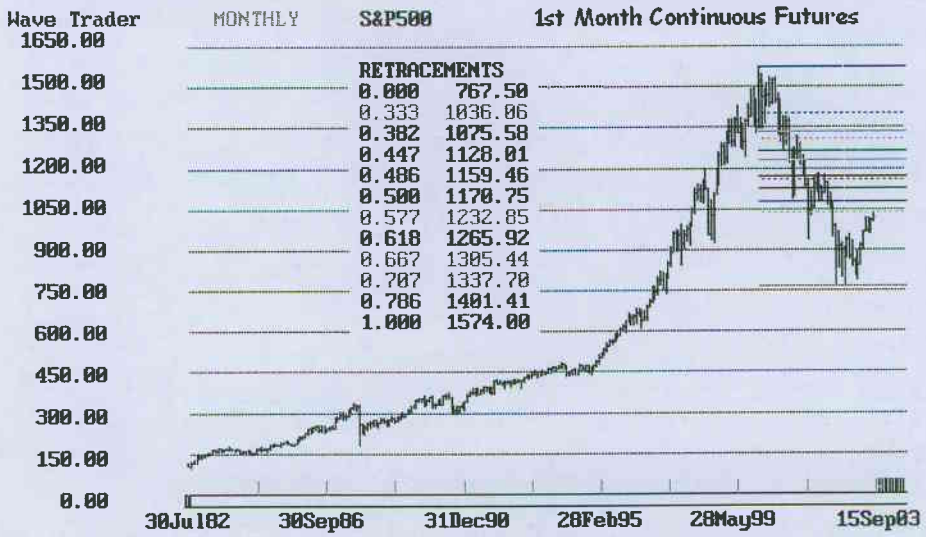
You only have to review this daily chart of the S&P 500's progress in recent months and you can see why the Funds and Commercials are adding to their short positions.

1st MONTH CONTINUOUS FUTURES CHART:

Now that we are in the rollover period and the active trading month is December we should be appending the December prices to our continuous futures chart.

This chart is the one we use for all our LONG-TERM technical analysis.

The S&P500 futures began trading in 1982 and I have been keeping an active record ever since.



When you examine the current market position relative to the bear market of 2000-2002 we have yet to retrace 1/3rd of it. The 38.2 is a way off at 1075.5 (1068 on SPX), if you recall from earlier chapters (see: S2:C2:P18) during the Bear market there were two very important retracements. One was 50% and the other 38.2% and each were approximately equal in length, (also see: S2:C3:P23).

From the low in October 2002 we have now been up 265 which is 25 points more than the previous largest correction on the way down. This could mean we are going to go higher or it could mean that we have only just moved the wave count up into a higher degree. Nevertheless, if you believe we are in a recovery, one would expect the market to make it back to the 38.2 or the 50 before it ran into a brick wall for a time. Well that is the theory of Elliott Wave if you believe in it.

My main point is this, 100's of other analysts are also thinking along the same lines and advising their clients of the possibility. If we indeed do continue up in this time frame we will have to negotiate the 38.2 level at 1075 (SPX 1068) and that could create a technical problem for this market with the current state it is in.

In any case no matter what happens you should keep a correct record so you will know the precise levels the professionals are working off.

Tuesday 16th September 2003:

Another day another dollar! Market shifts up a gear as the buyers return. Now the only barrier ahead is a test of the 1031 high.

I would explain the change in sentiment between yesterday and today as a combination of no bad news and technical breakouts. The early morning breakout of the 50 only left the 61.8 and the 13x13 as resistance. After the test of the 61.8 the market came back to the 50 level as the market digested the FOMC minutes. The old cliché saying is, **prior resistance becomes new support**, so they bought it and off it went.

The controversy surrounding Dick Grasso the Chairman of the New York Stock Exchange is an old story now.

This market has its sights set on the 1075 level right now. The 3 day trend is positive once again as the bears are getting hosed down. The bears have a small chance of a double top at 1031 but judging by the finish today the buyers should keep coming for the time being.

With only two days left until options and futures expiry conditions may get a little volatile, that is the only thing to consider right now.

It's time to remind you once again:
If the market is going up you buy it – If it is going down you sell it.
You can keep loading the gun until you run out of bullets. When the SIGNS are clear you can be sure that the professionals will act in their same old ways.

There is nothing new under the Sun. The methodologies I have taught you in this course will keep you on the correct path if you continue to do the preparation work and take it one day at a time.

I recommend TTW traders to keep a continuous 1st MONTH SWING CHART of significant market swings:

This way you will have a proper perspective of where the market has been and an idea where it maybe going in the future. You won't be guessing like most of the others who will be losing their money through lack of knowledge. The swings will take on the appearance of waves in lesser and higher degree.

This chart is current right now and contains the swing levels of the active 1st month ES contracts over the period. It is an Esignal ES #F continuous chart and was prepared by one of my TTW colleagues, Yigit Balligil who lives in Turkey. We have our own automated procedure for Esignal to produce swing these charts.

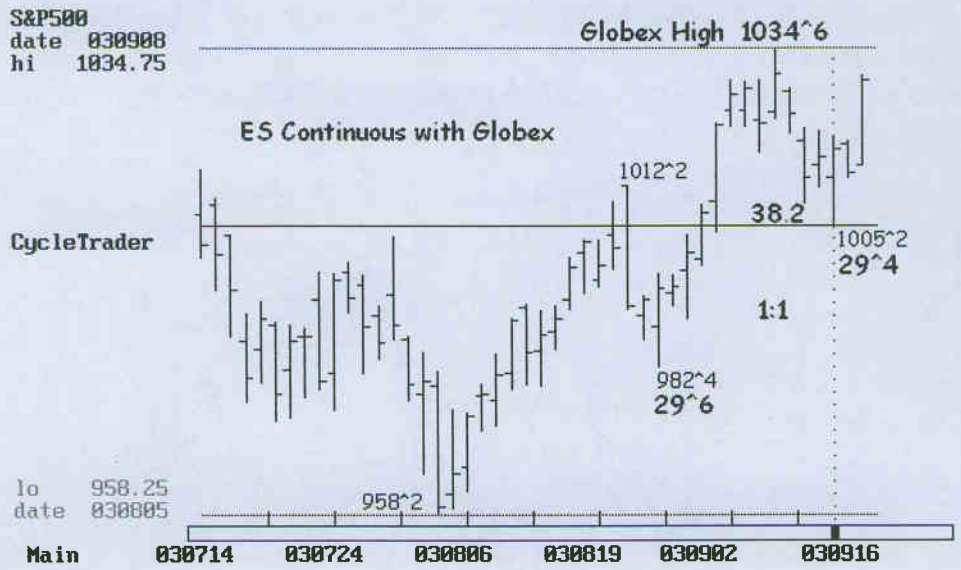
Higher highs and higher lows mean the trend is UP.

Lower highs and lower lows mean the trend is DOWN.

If you maintain a longer-term bias towards the medium-term trend you can't go wrong.

Swings will be under-balancing or over-balancing as the trend unfolds. You use this information and the retracement levels of prior ranges as your guide to trader sentiment.

The only thing that changes as the market moves forward is the DEGREE of TREND. Larger degree moves beget larger degree corrections; larger degree swings will unfold in 3 to 5 waves of lesser degree swings as a general rule.



Another educated colleague of mine, Steve Rifkin who you should all know by now as Steve is running his own day trading education program for S&P traders, sent me a chart this morning. I have reproduced my own chart to illustrate his point.

It refers to also using the Globex continuous prices as a means of identifying geometry at important swing highs and lows.

Steve was able to tie in the 1:1 geometry in the consecutive corrections with an exact 38.2 retracement of the entire range at the 1005^2 low the other day.

I think the point Steve was making to me, was just to say that you should examine every possible angle and the answer will be there in more ways than one.

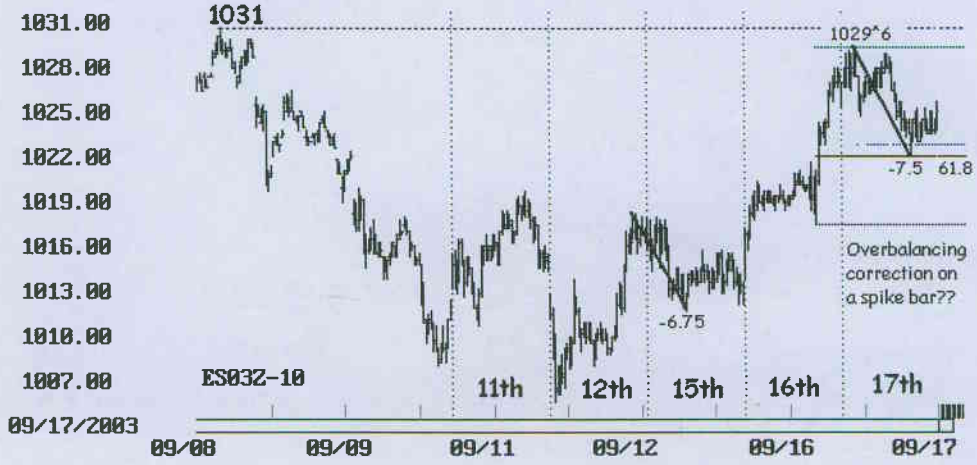
There is no doubt now that after yesterday's buying spree that anyone who matters has seen the relevance of the 1005^2 low and will consider that we have at the least one more leg up in similar degree. This should at least get us up to the vicinity of the 1058/1060 area.

Another colleague of ours, Paul Bonanno from California has already pointed out to our TTW group that the next CASH INDEX 1:1 comes out at 1056.55 so between all of us we have the market covered.

I am very proud of these guys the way they have taken to the education I have provided and the way they can now work it out for themselves without any help from me.

When I retire I know that the effort I have made will be remembered forever as the word spreads to those few who can learn to think for themselves.

Tuesday 17th September 2003:



Another small range day with no purposeful technical guidance, I watched for a while and when it couldn't test the old top at 1031 I left it alone. Now we have only 1 more trading day until the September/December rollover is complete. Traders are watching not only the ES-Z chart, but also the SPX, the SP-Z and SP-U charts and it is becoming confusing due to the rollover period.

Dick Grasso has resigned from the NYSE today at the request of the board so now that news is out of the airwaves.

Another distraction right now is the hurricane off the East Coast of the USA.

Still in general terms the market should be heading up. There is nothing going on that says it shouldn't be except technical selling by the funds and the commercials. See how the OI went up on the rise yesterday and the buyers absorbed it.

Contract	10-Sep		11-Sep		12-Sep		15-Sep		16-Sep	
ES	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Sep-03	773685	523696	162052	507982	86942	469596	55431	415507	57658	396115
Dec-03	33610	51090	611338	132846	654027	203844	552144	223276	664916	321307
Total	807295	574786	773390	640828	740969	673440	607575	638783	722574	717422
Delta	165092	30063	-33905	66042	-32421	32612	-133394	-34657	114999	78639

ES - OI +25% in 4 days

SP - OI +8%

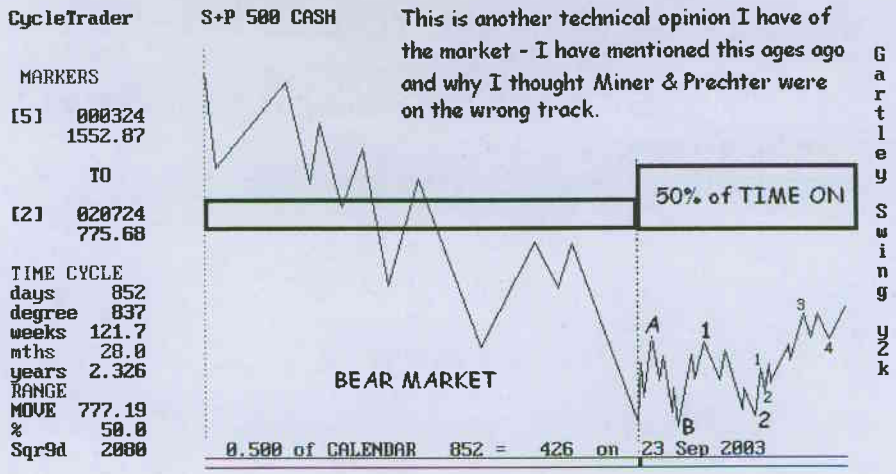
Contract	10-Sep		11-Sep		12-Sep		15-Sep		16-Sep	
SP	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Sep-03	104762	343476	101564	304902	87177	246217	82418	196669	74911	161228
Dec-03	61022	298532	114209	358715	125278	423201	112472	477515	115462	528790
Mar-04	503	7207	1	7208	2272	8587	2818	11240	152	11063
Jun-04	0	275	0	275	0	275	15	273	15	260
Sep-04	0	125	0	125	5	127	2	128	27	130
Dec-04	0	0	0	0	0	0	8	8	22	15
Mar-05	0	4	0	4	0	4	0	4	0	4
Jun-05	0	4	0	4	0	4	0	4	0	4
Total	166287	649623	215774	671233	214732	678415	197733	685841	190589	701494
Delta	-21128	4025	49487	21610	-1042	7182	-16999	7426	-7144	15653

Something else to think about:

As we get closer to this MAJOR time and price conjunction we need to be aware of its consequences – just in case it turns out to mean anything.

Time will be "square" 38.2 on 30th September 2003: It could be important.

Then there is another major time falling on the 23rd September 2003: This could also be important it is hard to say just yet, but I am aware that it is something I need to watch on the day if we are making a higher high than recently.



Just bear in mind that I am not making a forecast just warning that these are the two biggest obstacles in the path of this market in the near term. BTW Miner and Prechter were calling the market DOWN all the way up from April 2003: it's a sad indictment of their self-professed knowledge in my opinion.

One should never rely on ego alone and ignore what the market is telling you! You know, I can be the cruellest critic known to man because I also have to accept any criticism that comes my way.

One of the biggest obstacles in your trading career is going to be deciphering who knows what they are talking about and who can prove it works. Many of the things I have taught you in this course are not original in any way whatsoever, it is just the way I combine them that makes them the most effective trading tools you will ever learn.

The market does not listen to the things Miner or Prechter come out with. Or for that matter Arch Crawford the Astro "Guru" he was badly wrong from April on as well.

Just go back and read what I wrote in S2:C4:P39 on July 2nd 2003:

Please note:
Although I am mentioning these future timing dates and price price levels there is no reason to believe they will actually become fact. The dates will come and go and the market will do whatever it wants to at the time.

They are technical guidelines to be aware of that is all.

When the time comes the market will show its hand in a variety of ways which we will be able to identify with and act accordingly.

Thursday 18th September 2003: LAST TRADING DAY ES-U

Today you will see the reason for taking each day as it comes and not trying to forecast more than one day in advance.

Today the market went exactly the opposite of what the average "Joe Blow" in the street expected. Maybe the triple witching was what we needed to break the overhead resistance the market was up against.

Now all those people who have been calling the September 8th High the final high from March have to eat Crow. They must be getting used to it by now, the flavour of Crow I mean. But you know the stupid thing? The lazy public will continue to buy their newsletters and advice, follow them and lose their hard earned money.

This market rally from March has tarnished many reputations since it began, but if you study what I have been writing over all these months you will see that it wasn't very hard to stay on track and keep making money all the way.

All you have to do is take it ONE DAY AT A TIME and forget about forecasting what will happen to far out.

To make money all you have to do is just trade from level to level in the smaller picture and all the pennies just keep adding up. It is easier to make 5 to 10 points a day than hit a homer for 50 or 100 points on a medium term trend following position. There will be days where you catch the volatile runs either up or down if you keep entering positions when the opportunity is signalled, these are the bonus days.

You just have to treat this business of making money as a job and always remember the basics.